MARKET SIGHT*LINES*

The Midterms: What Could Change for Different Sectors?

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In September, we discussed **why the midterm elections were unlikely to change the gridlock of divided government**, even if control of Congress shifts. Last week, Stifel's Chief Washington Policy Strategist Brian Gardner and I continued that discussion in our **pre-election webinar**, examining what is at stake for investors. But limited change in Washington's overall direction does not mean the election will have little or no consequence for individual industries. **Brian's latest analysis** explores how spending negotiations, regulatory oversight, and areas of bipartisan agreement could affect businesses differently – often within a specific sector. In this Sight|Lines, we continue that focus to consider where the election could matter most for trade, healthcare, financial services, defense, domestic manufacturing, and clean energy investment, while focusing on possible policy changes rather than political headlines. And a heads-up – we'll revisit the results and the investment implications in our **follow-up webinar the day after the election**.

THE TAKEAWAY: LIMITED POLICY CHANGE CAN STILL MATTER FOR INDIVIDUAL SECTORS

The midterms may leave Washington's broad policy direction largely intact while at the same time creating potential differences in the outlook for certain sectors. In summary:

- Changes in congressional control may not remove tariff risks for importers, manufacturers, and exporters.
- Budget and debt ceiling negotiations could give Democrats leverage without materially improving our fiscal trajectory related to the federal deficit and debt.
- Healthcare policy changes may help providers and insurers but create risks for pharmaceuticals.
- Financial services could face greater scrutiny without a broad reversal of deregulation, although credit cards may warrant closer attention.
- Defense spending may continue to grow, but at a slower pace if Democrats gain congressional control.
- Policy may continue to support domestic manufacturing under either election outcome.
- Clean energy tax incentives could return to negotiations, although restoring them would require agreement rather than an election victory alone.
- Investors should look beyond party labels and assess how possible policy changes affect each company's outlook, valuation, and risks.

IN-DEPTH: LIMITED CHANGE IN WASHINGTON CAN STILL HAVE MEANINGFUL IMPLICATIONS FOR INDIVIDUAL SECTORS

The midterms may leave Washington's broad policy direction largely intact, but changes in spending priorities, regulatory oversight, and legislative negotiations could affect individual sectors differently. Going deeper:

- Trade policy could remain a source of sector differences despite legislative gridlock:
  - The president retains some trade policy authority, so tariff changes do not depend on a new congressional majority.
  - Changes in trade policy could affect supply chains and export-oriented manufacturers even if domestic legislation stalls.
- Democrats could gain negotiating leverage while the broader fiscal trajectory challenges persist:
  - Must-pass funding and debt-ceiling measures could create openings for Democrats to negotiate selected priorities.
  - Compromises could accommodate both parties' spending priorities without offsetting savings or revenues that would improve the fiscal outlook.
- Healthcare policy could affect providers, insurers, and drugmakers differently:
  - Democrats may seek to reverse Medicaid cuts and restore Affordable Care Act subsidies, potentially helping providers and insurers.
  - Democrats and the White House could find common ground on drug pricing, creating risks for pharmaceutical companies.
- Financial services could face more oversight, with credit cards a potential policy exception:
  - Housing proposals could expand federal mortgage insurance, creating competition for private insurers.
  - Credit card interest rate caps could draw bipartisan interest, but a 10% limit appears unlikely.
- Defense budgets could keep rising, though Democratic gains may moderate their growth:
  - A Democratic majority would not necessarily mean defense cuts, and spending could still increase.
  - Budget growth may be slower than under Republican leadership, potentially tempering the outlook for contractors.
- Support for domestic production could continue despite changes in congressional control:
  - Tax incentives and industrial policies could continue supporting investment in strategic U.S. manufacturing.
  - Potential beneficiaries extend beyond technology to pharmaceuticals, aerospace, machinery, and grid equipment.
- Clean energy tax credits could be negotiated, but restoration of the credits would require bipartisan agreement on legislation:
  - Restored credits could lower project costs, potentially supporting clean energy investment and demand for equipment.
  - Benefits would depend on which technologies qualify, credit amounts, and how long the incentives remain available.
- Investment decisions should reflect company-specific policy exposure, valuations, and risks:
  - Companies within the same sector often differ in their reliance on government funding, tax incentives, or regulation.
  - A favorable policy change may already be reflected in company valuation, limiting the forward-looking investment opportunity.

WHAT WE THINK

The investment implications of the midterms deserve a closer look than simply a focus on which party wins. Even with continued divided government, changes in spending priorities, oversight, and areas of bipartisan agreement could create opportunities and risks that differ across – and within – certain sectors. We believe investors should distinguish proposals and political headlines from changes that can realistically become policy, then consider what those changes could mean for individual investments. An election outcome alone is not an investment thesis. Understanding a company's exposure, financial strength, valuation, and risks remains important, and we will continue our work in that regard as the results and policy priorities become clearer.

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